

TECHNICAL REPORT

The Process of Business Establishment Reform

Lessons from International Experience

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Executive Summary

Among the many determinants of a country's investment climate, probably none has received as much attention in recent years as issues relating to business establishment—the time, cost and number of procedures required for a new business to satisfy legal and regulatory requirements and commence operations. At the Monterrey Development Conference in 2002, which focused on investment climate themes, the only numerical goal agreed upon by participants was to realize by the end of 2004 a 7 percent reduction in the time, cost, and steps associated with business establishment.

Improvements in business registration can be a litmus test of investment climate improvement, especially for foreign investors who can choose their locations. More important, more efficient business registration can perhaps bring businesses from the informal sector into the formal sector, giving them better access to finance and other services, and increasing tax revenue for the government, leading, one hopes, to a virtuous cycle of more investment in the economy, jobs, and sustainable growth.

More efficient business registration is, however, just one component of the investment climate, and needs to be accompanied by complementary efforts in other areas. The impact of business registration improvement is limited when weak rule of law, poor institutional capacity of key government agencies, or the past baggage of command economies, for example, are prevalent. Such barriers may make it impossible to replicate best practice from advanced countries that have had decades or centuries to lay crucial foundations.

There is also a suspicion that simple measurements of business registration performance, in terms of number of days, for example, do not capture, or can obscure, the bigger picture. Zambia's relatively good performance obscures weakness in the broader investment climate, while Costa Rica's relatively lengthy procedures obscure a stronger investment climate. Sometimes a single figure (150 days for Indonesia) can obscure superior performance in (certain) subnational locations (the level where business registration is typically handled). Finally, the general case (e.g., figures from the World Bank's "Doing Business" database) is often based on official estimates, and may not reflect reality.

Methodology and Summary of Case Study Findings

How have developing countries used best practice tools and approaches to reform the process for business establishment and how successful have they been? Examples and case studies from a wide variety of countries provide valuable lessons for countries and subnational regions that intend to tackle this important component of the investment climate. We try to answer several critical questions about the business establishment process.

- Why should countries want to reform the business establishment process?
- Why have attempts to reform the process met with difficulty and resistance in many countries?
- What constitutes best practice in business registration reform/improvement?
- How should developing countries go about reforming the business establishment process – what tools and approaches have they sought to use, and with what success?
- What are the lessons that can inform future attempts in developing countries to reform the business registration process and, more generally, the public-private interface?

In attempting to answer these questions, we present highlights and case studies of business registration practices from developed and developing countries. Many exemplify best practice while others have been less successful.

The brief descriptions of business registration practices in Chapter 2 highlight tools or characteristics that make them potential models, although the process of how those practices emerged or were introduced may not be clear. Many of the examples are from developed countries, and their direct applicability to developing countries may be limited.

The case studies in Chapter 3 examine the process of business registration improvement that occurred or is underway in five developing countries: Zambia, Montenegro, El Salvador, Bolivia, and Costa Rica. Because our objective is to better understand the process of successful business registration improvement, we focus on countries where there was a clear starting point, a clear attempt to implement reforms and/or improvements, and an endpoint or stocktaking point that allows us to evaluate reforms and improvements.

Our selection of case studies was guided by our desire to cover various approaches to business registration reform, as well as to consider relatively successful and unsuccessful attempts. It was also partly guided by our access to experts who had been close observers of, or intimately involved in, the reform process, and by a desire to include case studies from Latin America. Table ES-1 summarizes the substance and results of improvements or reforms attempted in each case study country.

Table ES-1*Summary of Business Registration Reform Efforts and Impacts from Case Studies*

Case Study	Summary of Situation Prior to Reforms and Reform Efforts	Indication of Impact
Zambia Reforms from 1996	<p>Business registration (BR) in Zambia was not onerous before reforms began in 1996. The main problem was that the company register was nearly worthless for anyone needing information on Zambian-registered businesses: the registry was inaccurate, required annual returns were not processed, and the registry was understaffed for the tasks it faced.</p> <p>Reform involved computerization and re-registration of previously registered companies.</p>	<p>Accuracy of business registration has improved, and staffing needs have declined with computerization. The re-registration process resulted in at least a 30 percent drop in companies on the register because defunct companies did not re-register.</p> <p>HOWEVER, reforms could not address how to increase formality, and Zambia's case shows that good business registration procedures (i.e., no or minimal screening) is no guarantee of a dynamic investment environment and public-private interface overall.</p>
Montenegro Reforms from 2001/02	<p>BR procedures suffered from intrusive economic management that occurred when Montenegro was a part of Yugoslavia.</p> <p>The objective of reform was to stimulate establishment of new enterprises, encourage FDI, and have a business registration process that took no longer than 15 days. The reform process included organizational and legal reform components, including providing better information on procedures and reforms, introducing a single fee, ensuring parallel conduct of various procedures, automatic approval, reduction in capital requirements, and elimination of selected procedures. Strong leadership and coordination guided the reform process.</p>	<p>BR reform in Montenegro is viewed as extremely successful by public and private sector, with the number of registered companies tripling between 2002 and 2003. Company registration now takes less than 15 days, with the Commercial Court component taking no longer than 4. Time required has fallen from roughly 44 days to 15 days. Costs have also fallen because there is less need for intermediaries.</p>
El Salvador Reforms from 1995 onwards	<p>In the mid-1990s establishing a business in El Salvador was estimated to take 14 months for domestic companies and 23 months for foreign companies. The motivation for reform was the need to attract mobile FDI, rather than to increase formalization of SMEs. The old system was inefficient, opaque, corrupt, and plagued with duplicative procedures. Reforms were spurred by the National Competitiveness Program (NCP) of 1995, but were complicated by institutional rivalry between ONI (the IPA) and the Commercial Registry.</p>	<p>A new investment law was a key component of the NCP and contributed to much faster BR although domestic and foreign BR still seem to be separate. ONI is now the sole registrar for foreign companies; it also oversees the BR reform process generally, with a reporting line to an interministerial committee. The power of the Commercial Registry to review and set accounting standards, and to conduct audits, was transferred to the private sector by a new law—a major contribution to reducing BR times from 18 months to 115 days, according to the World Bank's Doing Business database for 2004.</p>
Bolivia Reforms in 1999/2000	<p>BR in Bolivia in the early 1990s had many characteristics of inefficient systems: numerous duplicative steps, opaque and time-consuming procedures, corruption, understaffing, little inter-institutional coordination, and substantial administrative discretion.</p> <p>There was no real constituency for BR reform—no national development vision or championship for reform from—and changes in the system came in the form of an “accidental” privatization wherein the Chamber of Commerce (CoC) saw an opportunity to take over government functions. Neither the attraction of mobile FDI nor the formalization of the informal sector translated into government proactivity.</p>	<p>The government attempted various reforms, including decentralization of business registration in 1996, which was later reversed. By the late 1990s the CoC saw an opportunity to take over the BR function, arguing that its access to private companies and network of offices put it in a unique position.</p> <p>HOWEVER, evidence suggest that the CoC does not manage BR any better than the government, and the 18 procedures and 67 days required in 2003 are not significantly different from 1998 before “privatization.” Failure of BR reforms in Bolivia may be due to lack of motivation within the government and no vision for economic development; institutional rigidities and lack of coordination; and a failure to undertake fundamental reform to the Commercial Code.</p>

Case Study	Summary of Situation Prior to Reforms and Reform Efforts	Indication of Impact
Costa Rica Reforms ongoing in 2003	<p>The Costa Rica case study does not have a mid- or end-point by which to judge reforms or improvements. It does however incorporate a variety of reform/improvement approaches.</p> <p>BR in Costa Rica involves about 11 procedures, takes about 3 months, and, most important, is a sequential process. The relatively long BR process notwithstanding, Costa Rica has a strong international reputation as an FDI destination (in this sense its situation is the opposite of Zambia's).</p>	<p>Reform or reorganization efforts aim to reduce the cost of registering a business by 25 percent, and the time taken by 75 percent, benefiting some 93,000 entrepreneurs over the next 10 years, and saving the economy \$130mn in time and fees (according to IDB/Costa Rica Government).</p> <p>KEY COMPONENTS OF REFORM include a one-stop shop for business registration, a unified registration process with procedures conducted in parallel rather than in series, institutional reforms that allow BR to be conducted on a franchise basis, accessing a central database, and so on. Most reforms are organizational rather than legal or administrative, thus reducing the challenge to power bases. Information technology is also to be used aggressively.</p>

Analysis of Findings and Lessons Learned

The case studies and highlights of business registration reform worldwide provide many important lessons for countries or subnational regions considering reform of this aspect of the business environment. But two main lessons stand out. First, before embarking on deep legal and institutional reforms that challenge power structures and relationships (which while perhaps necessary are very difficult), consider what can be achieved through improvements of a more organizational nature. Second, while efficient business registration is desirable and probably necessary, it is far from sufficient to produce a dynamic business environment. Thus, ultimately, best practice in business registration needs to be supported by the effective rule of law in business-related matters. Unless and until those deeper improvements are realized there are likely to be diminishing returns to improvements in business registration.

WHY SHOULD COUNTRIES WANT TO REFORM BUSINESS REGISTRATION?

There are three general rationales for wanting a more efficient business registration system in the context of stimulating a country's economic performance.

- *Inefficient, duplicative, time-consuming procedures distract the private sector from contributing to the economy.* While this all-embracing rationale is obvious, governments and private sectors often do not see the "big picture." Small businesses see excessive regulation as a necessary evil or occupational hazard, while larger companies find ways around it. They are either not motivated to do anything about it, or do not have the resources to do so. Each involved government department, meanwhile, often sees itself as defending some public good, and as placing only a small burden on businesses through its procedures. Those departments do not see the aggregate burden, or realize that many procedures are duplicative.

- *Efficient business registration and licensing is important for attracting foreign investment.* Companies already located within a country (or investing to access some unique resource) have no choice but to follow a country's administrative procedures in all their complexity. However, countries competing for mobile foreign investment face stiff competition and will be compared with competing countries on many counts, including administrative transparency and efficiency, by investors who enjoy a choice of location.
- *Efficient business registration can help bring more companies into the formal sector.* Burdensome business registration and licensing procedures may be one cause of the high levels of business informality in many countries, as much as 60-70 percent in Bolivia, or 30 percent in Montenegro. Some parts of an informal economy are simply illegal in nature, and will not be affected by procedural improvements. However, for the majority of informal sector activities the salient factor may simply be the burden and complexity of complying with government requirements. Governments should want to have more businesses in the formal sector not only because businesses in the formal sector are more sophisticated and better contributors to the national economy, but also because of the additional tax revenue they generate.

WHY IS BUSINESS REGISTRATION REFORM SO DIFFICULT?

Despite the many potential benefits of an improved business registration process, reform often proves extremely difficult. The reasons why it can be so difficult need to be taken into account when designing improvements to business registration and other aspects of the public-private interface.

- *Smaller domestic companies in developing countries are generally fearful of the costs of exposure that come with registration.* Domestic companies, especially those that have experienced a command economy or extremely intrusive economic management, are generally mistrustful of government oversight of business.
- Similarly, *government departments are often distrustful of the private sector, seeing themselves as defenders of the public good.* Moreover, each relevant government department or agency typically wants to maintain a measure of control over business not realizing (or perhaps caring) that the aggregate effect on business dynamism is substantial.
- *Multiple government institutions are typically involved in the business registration and licensing process.* For various reasons they do not see the big picture or aggregate benefits of more efficient business registration. Unless there is some shared vision for economic development, and/or a champion at the highest level to push reforms through and enforce their implementation, the reform process may well be frustrated.
- *Government mistrust of the private sector, and the desire of multiple levels and agencies of government to maintain some control over business, often results in complicated legislation.* Sometimes most of rules and regulations are contained in the Companies Law

or Commercial Code, but often they are dispersed across multiple pieces of sometimes inconsistent legislation.

- *A streamlined process would make kickbacks and higher fees less “justifiable.”* For a simple process, a local authority could not justify large fees, and individuals would find it more difficult to extract kickbacks.

HOW SHOULD COUNTRIES REFORM BUSINESS REGISTRATION; WHAT ARE THE KEY TOOLS AND APPROACHES?

The case study findings and examples of business registration techniques investigated in this report reveal a variety of tools and approaches for improving business registration performance. The main conclusions are as follows.

- *Organizational changes can often produce major increases in business registration efficiency.* Such opportunities for improvement should be sought in parallel with, or even before, attempting deeper legal or institutional reforms. These easier steps can help build a constituency for deeper reforms by setting a persuasive track record of increased efficiency, and allow those tougher reforms to be staged over time. This is an important part of Costa Rica’s current business registration improvement strategy.
- *Reform of Commercial Code/ streamlining of regulations relating to business registration, and the possible use of deadlines.* Redundant forms, regulations, steps, and processes should be eliminated from the business registration process. This was the central thrust of business registration reform in Montenegro, which was also accompanied by a broad consensus on economic development within the government, and an increased use of information technology. Deadlines for procedures can also be used to speed business registration. Simplifying business registration also helps reduce opportunities for illicit payments.
- *Reform of institutions/ mechanisms related to business registration.* This could be consolidating institutions or improving linkages between them, such as through a single identification number. Whether decentralization of authority is underway or not, close coordination between subnational and national governments is important for efficient registration, and at the very least can make the business registration process more accessible to businesses located away from commercial and political centers. Given also the many institutions involved in business registration, a clear champion and reporting lines to a higher authority are usually important.
- *Need for a shared economic development vision, and a champion for reform at the highest levels of government.* In El Salvador, for example, institution of a National Competitiveness Program was crucial in setting foreign investment as a national economic objective, in implementing a new foreign investment law, and in transferring full authority for foreign business registration to a single agency.

- *Integrating business registration functions through a single identification number helps improve the rate of formality.* If all functions are linked, there may be at least one that a company needs to or would like to do to access certain benefits. Access to attractive training incentives instituted by government or to business information centers could also encourage registration. Of course, a single identification number also helps reduce duplicative procedures.
- *Privatization of the business registration function can help improve efficiency and reduce the burden on government.* The UK's Companies House is an example of effective privatization while Bolivia's privatization of business registration to the Chamber of Commerce, in some regards, seems to have merely transplanted an inefficient system from the public to the (quasi-) private sector.
- Finally, *the use of information technology and unified points of contact for business can facilitate business registration, typically in parallel with procedural simplification, and such tools as a single identification number.* Streamlining of the process itself, along with other reforms, is necessary for computerization to be effective. For countries or subnational regions that need "lower" technology solutions for business registration reform, an assembly line of agencies stationed in one location – a one-stop shop – can dramatically reduce registration time. Such a system exists in Brazil at the state-level, and also in Sidoarjo District in Indonesia. As with all one-stop shop solutions, governments must ensure that the result is not a one-more-stop shop. A key objective of unified points of contact and information technology is to make information about procedures, as well as the completion of those procedures, widely accessible.

Conclusion

Our findings in this report suggest that the first steps in reforming business establishment procedures are a detailed review and understanding of existing procedures, and a vision for investment climate improvement championed at the highest levels of government. With those two preliminary steps taken, developing country governments and their partners can set about designing a country-specific strategy for business registration reform drawing upon the tools and approaches investigated in this paper.

1. Introduction

From the early to mid-1990s, evidence mounted that good macroeconomic policies alone were not producing or sustaining desired rates of growth in developing countries. In response, developing countries and development institutions began to emphasize the effectiveness of legal and regulatory frameworks, the administrative interface between public and private sectors, property rights and the enforceability of contracts, and the judiciary and the quality of the rule of law. Along with other “microeconomic” variables, these are often referred to as determinants of a country’s investment climate.

Among these many determinants, probably none has received as much attention in recent years as the establishment of businesses: the time, cost, and number of procedures involved in satisfying government legal and regulatory requirements and commencing operations. Indeed, the Monterrey Development Conference in 2002 agreed on only one numerical goal to be realized by the end of 2004: a 7 percent reduction in the time, cost, and steps associated with establishing a business.

The registration of business is in many ways the entry point for economic management of an economy. Without business registration governments find it difficult to track economic activity and to derive direct fiscal revenues from it. Bringing informal businesses into the formal sector increases the quantity and quality of economic activity. For businesses, registration is the first requirement for legally operating in a country, and big businesses (including foreign companies) expect to register in order to operate legally. Furthermore, they often view ease of business registration as indicative of the quality of the operating environment. Domestic SMEs, meanwhile, should want to register to enjoy the benefits of formality, such as better access to finance and various forms of government support. But they often fail to register when the process of doing so is complicated and costly, and when the resulting “costs of exposure” outweigh the benefits of formality. In any case, from the perspective of “self-interest rightly understood” more efficient business registration is in the interest of government and business.

In late 2003, the World Bank published its first annual survey of “Doing Business,” which purports to offer for the first time objective, comparable data on business establishment (and

other) procedures across a sample of 135 countries. Covering domestic SMEs (50 or fewer employees), the survey measured

- The number of procedures involved (i.e., when an applicant needs the consent of a separate government office this is a procedure);
- The time required to complete procedures (government estimates); and
- Associated costs expressed as a percentage of gross national income (GNI).

The survey did not cover sector-specific requirements for establishing a business or procedures for obtaining subsidies or incentives.

The survey produced strikingly different results across countries, raising critical questions about why start-up procedures could be so simple in some countries and so complicated in others. Canada, a top performer, required only two procedures and three days at a cost of 0.6 percent of GNI, while Mozambique required 15 procedures and 153 days at a cost of 99.6 percent of GNI.

In this paper we investigate some of the tools and approaches that some developing and developed countries have sought to use for business registration. We are interested above all in the reform process in developing countries – how they have used various best practice tools and approaches, and with what success. Developed countries are of interest for their best practice tools and approaches. Using the various brief and longer case studies in this report we ask several critical questions:

- Why should countries want to reform the business establishment process?
- Why have attempts to reform business registration met with so much difficulty and resistance in many countries?
- What constitutes best practice in business registration reform?
- How should developing countries go about reforming the business establishment process – what tools and approaches have they sought to use, and with what success?

We present a variety of case studies of business registration. Many exemplify best practice while others exemplify less successful attempts at reform. In Chapter 2 we summarize model business registration process from developed and developing countries. For some we are able to offer only a description of current processes and how they came about in the course of general economic modernization. And while the summaries present key components of efficient systems of business registration, whether and how those components apply to developing countries requires more detailed case studies of countries that have tried to incorporate those components. For example, privatization has worked well in the UK, but seems not to have made much difference in Bolivia. Was the problem the form of privatization, the stage of development, or other unique conditions? In Chapter 3 we present more detailed case studies of business registration reform in developing countries. Our selection of case studies was guided partly by our desire to present a variety of approaches to

business registration reform and their relative success, partly by our access to experts who had been close observers or intimately involved in reform processes, and partly by our desire to include studies from Latin America. In Chapter 4, we present a comparative analysis of the case studies and an evaluation of the most valuable tools and approaches to business establishment reform.

2. International Best Practice in Business Registration

The descriptions of business registration reforms in developing countries presented in this chapter provide evidence, along with some of the case studies in Chapter 3, that good business registration practices can be introduced successfully. The tools and approaches described here are all potentially important elements of efficient business registration systems and some investigated further in the detailed case studies.

Australia

In Australia, the Australian Securities & Investments Commission (ASIC) (www.asic.gov.au) is in charge of company registration. All services can be obtained on the Internet, including download of application forms and submission of applications and data updates. Until recently, companies were obliged to file an annual return and were subject to penalties if they failed to do so. Under Corporate Law Economic Reform Program 7, the Corporation Law has been amended by the Corporations Legislation Amendment Bill 2002. Annual returns were abolished to reduce regulatory burdens on business, especially small businesses, and to improve compliance through streamlined document lodgment. After the bill was adopted, about 1.3 million companies no longer needed to submit an annual return. Annual fees replace the annual return fee; companies pay a review fee at the time of their annual review, which is two months after the anniversary of their registration date. Companies review their company particulars against information that ASIC sends to them. If there are no changes, they do not have to lodge documentation with ASIC. Companies must still tell ASIC about basic changes in company details when they occur (e.g., names of managing directors, the nominal capital, address). But if there are no changes at the time of the annual review, no paperwork needs to be lodged.

Brazil

Brazil introduced a new approach to business registration as a pilot project in Brasilia in 1997. Known as the FACIL (or “easy”) project, Brazil’s registration reform was instituted by SEBRAE, the Brazilian Support Service for Micro and Small Businesses. The goal was to increase registration of smaller businesses and thus promote formalization of the economy. This reform established “one-stop shops” at the state level, where several registration processes were streamlined into a single process. The one-stop shops brought together in one place the offices of at least five government institutions, including the federal, state and municipal tax agencies, commerce authorities, the local government, and SEBRAE. “FACIL Attention Central” helps entrepreneurs avoid tours of multiple bureaucratic entities and orients entrepreneurs, especially those with the least resources. Entrepreneurs are able to register their businesses within one week for about US\$125, which covers fees paid to business associations and the price of a business registration card. According to one SEBRAE official, the system has increased the business registration rate by about 30 percent. The program has expanded to the states of Amapá, Bahia, and Sergipe in the north and the industrialized central and southern states of Minas Gerais and Paraná. Each state government must pull together the participating agencies—not always an easy task—and find a space where it can offer combined services to businesses. The program will expand to all of Brazil in coming years.

Indonesia

According to the World Bank’s Doing Business database, business registration in Indonesia takes 151 days (2004). But in Sidoarjo District near Surabaya it takes approximately 21 days, down from 150 prior to 1999. Strong mayoral leadership drove this improvement, which was subsequently supported by Indonesia’s comprehensive decentralization program. The streamlining of business registration began in 1997 with a Mayoral Decree that assigned a unit of local government to be a one-stop facilitator (i.e., gather, check, and submit to various departments for processing and approval all required forms). Subsequent local regulations in 2001 and 2003 authorized this unit, now elevated to departmental status, to issue 14 different licenses. These licenses are processed by the department in parallel (not in series). Sidoarjo’s one-stop shop for business registration is now ISO 9001 certified, and surveys all business registration applicants for customer satisfaction, which has shown a steady, substantial increase. The shop is a best practice model for Indonesia’s other 430 districts.

France, Germany, Portugal

Since the early 1980s, France's public and semi-public bodies whose services are required for setting up businesses have united in a single network represented by a single access point. These Business Formalities Centers (CFEs) are "front offices" in such places as chambers of commerce and industry for businesses in the industrial and commercial sector, chambers of trade for tradesmen, and, more recently, chambers of agriculture. Initially dealing only with commercial or industrial enterprises, CFEs provide a single access point for various procedures required to set up, close down, or otherwise change the status of a business. This means that in addition to the front office, a "back office" pools data. Thus, when a new business applies to register at an access point, simultaneous notifications are sent to administrative services dealing with taxes, social services, statistics, and legal aspects of the application. The business is assigned an identity code for joint use by all members of the network and which allows a case file to be identified unambiguously. The code is the Siren No. administered by INSEE, a statistics office. The code is also proof that the business has duly notified judicial authorities, has registered, and has complied with all safeguards required by law in the conduct of its business.¹ Since late 2001, the Ministry of the Economy, Finance and Industry has been preparing an information gateway, a virtual embodiment of the CFE, that will be an online resource for businesses, providing crucial information and guiding them through steps necessary to establish a business.² Germany's Gewerbeamt and Portugal's CFE Network (Centro de Formalidades das Empresas) take a similar approach. Available in seven regional offices, Portugal's network has reduced approval times from 4–6 months to 2–3 weeks. If authorities in Portugal do not respond within a stated period of time registration is granted automatically.

Hungary

Hungary introduced a simplified, coordinated registration procedure for company, statistical, Chamber of Commerce, and tax registration numbers in 1998. This new procedure has eliminated duplication boosted efficiency. Once a company's name and address is entered into the computer at the Court of the Registrar, the company is issued a registration number used for identification and tracking of the application. Simultaneously, the Court of the Registrar obtains, and submits for the applicant, all necessary forms and information to and between relevant agencies. This information is then entered into the company's registration record. The Court of the Registrar is electronically provided with the company's tax number, social security account number, and statistical number, and the company is registered with the Chamber of Commerce. These registration numbers are provided to the Court within two days.

¹ OECD, *From Red Tape to Smart Tape: Administrative Simplification in OECD Countries* (Paris, 2003), p. 121.

² See, OECD, *From Red Tape to Smart Tape*, pp. 118–21.

Ireland, Denmark, Austria, Italy

Ireland's Registrar of Companies offers registration services online at its website: www.cro.ie. For an annual fee of £3,200 basic company information for all companies can be accessed. Denmark's authorities have used Internet technology to create a single web page where entrepreneurs can access all forms and make payments necessary for business startup. Austria has a central electronic business registry; small businesses are absolved from statistical and reporting requirements. Italy's online business registry provides information about all enterprises including names, addresses, statutes, and annual accounts. Some of this information had once been stored in paper form at local courthouses. This new registry makes information on businesses available to all relevant public administrative agencies through the online database.

Malaysia

Computerization in Malaysia has reduced the time for business registration to one or two days. Moreover, the efficiency of company and tax registration is self-monitored through an annual audit by the company registrar. The government's goal is to ensure that all applications are processed in a timely manner; the annual audit assesses the percentage of applications completed in the prescribed timeframe, typically close to 100 percent.

Investors registering a company first acquire approval for the company name. Before computerization this took 3–5 days; it now takes 1–2 days. Once the documents are submitted to the registrar, a company number is issued. The documents are forwarded to the tax authorities, who automatically register the company for tax purposes. Applications for registration can be submitted through the state branches of the Registrar, and all state branches are electronically linked to the federal level. After the Registrar processes the registration document, it issues the Certificate of Incorporation. Registration usually takes about 6–8 weeks. Transparency is enhanced through the publicly posted "client charters," which list all document requirements, processing times, and fees.

Sweden

Sweden has had a single identification number system since 1985. This number, which is used by the company from start-up to dissolution, can be retained even if the company changes its name. It is used for administrative purposes such as taxation, insurance, banking, and telecommunications. Denmark, France, Hungary, and Portugal have comparable systems.

United Kingdom

Company registration in the UK was privatized in the 1980s, and basic information on all registered companies is publicly available. Companies House, headquartered in Cardiff, registers all companies in England and Wales and has local offices around the country. Scotland has its own private Companies House. The government supervises and regulates Companies House to ensure proper service, data protection, and appropriate fees. Registering a company in the UK, no matter what type, takes about three business days and costs a flat fee of £20. Same-day service costs £100. Companies House maintains its own database for company names. Anyone can check whether a company name is available via the Companies House's website. This service is free of charge.

3. Case Studies of the Process of Business Registration Reform

Business registration is just one component of the investment climate; underperformance elsewhere can often undermine performance in this area. For smaller, domestic companies, business registration—and related licensing procedures—is typically the first and most substantial barrier to improved business performance, and certainly a major barrier to their contribution to the overall economy. In this chapter we present case studies of the process of business registration reform. Each case has a different focus and each reform process had a different degree of success. For each case, we discuss the situation before reform, the process and characteristics of reform, and the impact of those reforms.

Zambia: Computerization of the Company Registration Process

In Zambia, companies register with the Patents and Companies Registration Office (PCRO), an executive agency under the Ministry of Commerce, Trade and Industry, centralized in Lusaka. The names of about 54,000 limited companies and 120,000 business are registered. All limited liability companies, joint stock companies, and partnerships must register with the PCRO. Sole proprietors must register the business name in the PCRO's Business Names Registry if the business is to be conducted under a name other than that of the proprietor.

Business registration fees are moderate. For the registration of a limited liability company with the nominal capital of up to K2 million (US\$ 444.44) the registration fee is K95,000 (US\$ 21.11). For limited liability companies with higher nominal capital, the fee is 2.5 percent of the capital. A fee of K40,000 (US\$ 8.85) must be paid with the mandatory submission of an annual return.

A company can be registered in not more than two weeks. This time period is relatively short and acceptable in comparison to countries in the region. However, the best performers, like Australia or New Zealand, can register a company in one day.

SITUATION BEFORE REFORM

The main problems with company registration procedures in Zambia before computerization were

- Inaccurate registry. Information kept in the registry was often obsolete because regular updates were not performed. Therefore, one of the main functions of a company registry, namely to provide reliable information on registered businesses, was not fulfilled by the PCRO.
- Failure to process annual returns. Mandatory annual returns of registered companies were not actually processed, resulting, among other things, in a high number of registered but inactive businesses. Inactive companies blocked others from using many company and business names. Furthermore, missing returns were not identified and followed up on; new information was not inserted in the register; and penalties and fines not applied.
- Lack of personnel. Though the PCRO had more than 15 employees, it needed more to manually process files, applications, and annual returns.

A centralized process of business registration also disadvantaged rural companies. The PCRO is located in Lusaka with no local offices outside the city. Considering the unpredictable functioning of the Zambian mail system and the lack of computerization of PCRO, applicants from outside the capital needed to travel to Lusaka to pick up forms, lodge the name application, deliver additionally requested documents, inquire about the status of processing, respond to requests for clarification, and so on, even when personal appearance was not mandated.

In sum, the main problem with business registration in Zambia, prior to post-1996 reforms was not the procedure or its duration. Rather, it was that the existing register was nearly worthless for anyone who needed information on businesses registered in Zambia. In addition, this non-performing system tied up more than 15 employees.

THE REFORM PROCESS

Zambia decided in 1996 to change from the manually operated company registry to a computerized registration system. It took several years to organize funding of the project. In 2000, after an open tender including the provision of hardware (10 work stations), software (operating program and data base program) and training to registry employees, a company started to install the system. A bilateral donor covered the final total cost of US\$512,000.

The objective of computerization was to increase the accuracy of the register, speed up the registration process, and reduce the number of employees at the Registry. The use of a computerized system was also seen as a first step in offering the public the possibility of online name search, registration, and form download.

The transition from a manual file system to computer files began in early 2001. The PCRO informed the public by advertisements in local and nationwide newspapers, as well as through other public notices, that all companies registered before May 15, 2002, were required to fill in and submit a questionnaire within the next 12 months. The fee for submission of the questionnaire was based on the fee for an annual return. The questionnaire would replace the mandatory annual return for the year 2003. Companies registered before May 15, 2002, that failed to submit the annual return for 2002 had to provide the questionnaire and an annual return and pay fees for both. Companies that registered after May 15, 2002, would not need to submit the questionnaire.

The questionnaire would be the basis for entry into the new Company Registry, and companies that did not submit the questionnaire by May 15, 2003, were to be dropped from the Company Register. Officials from the PCRO estimated the time to process all questionnaires into the computer system to be about six months from the submission deadline.

During the re-registration period from May 2002 to May 2003, the number of companies submitting the questionnaire was extremely low. Only 5,000 of 51,000 registered companies submitted a questionnaire by April 2003. Only 2,000 of 107,000 registered names were re-registered. Though the registry experienced a run in the last days before the closing date, the number of registered companies and business names still far exceeded the number of submitted questionnaires.

New legislation for the computerization of the PCRO was not necessary. The Company Registry could act within the powers laid out in the *Zambian Company Act*.

IMPACT OF REFORM

Computerization, combined with a new registration of all companies, resulted in a high degree of accuracy. Assuming that no mistakes were during information entry, the computer registry is nearly 100 percent accurate. More than 30 percent of formerly registered companies could be struck from the registry because they did not renew their registration.

Fewer and differently qualified personnel were needed to run the computerized registry. However, the training program allowed all former personnel willing to be trained on the operation of the computer system to keep their positions. About 20 percent of the registry's personnel could be transferred to other authorities.

Computerization gives the PCRO the opportunity to provide additional services. Over the coming years it plans to

- Introduce a PCRO website that allows not only the provision of information but also the download of application forms and an online name search;

- Open a local branch in the Copper Belt and connect it electronically to the headquarters in Lusaka; and
- Enable the exchange of information with other authorities such as the tax administration, the Investment Centre, the Bureau of Statistics, and the Ministry of Labor, and the related introduction of a unified company number.

Montenegro: Reform of the Registration Process and Requirements

In Montenegro, limited liability companies, joint stock companies, and partnerships must register with the Commercial Courts. Before starting operations they must also (1) register with the Statistical Agency of Montenegro; (2) open a giro-account with the Office for Clearing and Settlements; (3) register with the tax authorities; and (4) obtain an operating permit from the Municipality.

SITUATION BEFORE REFORM

Before the company registration procedure in Montenegro was reformed it

- Was complicated and slow. Obtaining a registration certificate from the Commercial Court took at least 30 days. Another 10–15 days were needed to obtain approvals and certificates from different institutions before the application for company registration could be submitted. And it took another 15 days to obtain a permit from the Municipal Secretariat for Economy to start operations.
- Required relatively large initial capital. To be registered, a limited liability company needed founding capital of US\$ 5,000, while a joint stock company needed US\$ 10,000. This is a very large sum compared to Montenegro's GDP per capita of about US\$ 2,000 (2001, including the estimated informal sector).
- Involved a large number of uncoordinated steps and institutions.
- Required excessive documentation.
- Required payment of high fees, taxes, and other contributions. Official fees for registering a company, and completing other mandatory procedures was about. Due to the complicated nature of the process a specialized agency was typically engaged by a company, and fees for its services fees typically amounted to US\$ 150-300.

Many steps and institutions were involved in registering a company. Many institutions had to be visited at least twice in order to obtain the certificate or approval needed for submission to

the Commercial Court for company registration. The steps to register a company were as follows:³

1. Paper shop – Buy company registration forms: US\$ 2.50.
2. Attorney – Draft Articles of Association and Memorandum of Incorporation; fee: US\$ 25.
3. Photocopying shop – Make five copies of the Articles.
4. Basic Courts – Notarize at least four copies of the Articles.
5. Commercial bank – Open a company account.
6. Post Office – Pay at least 50 percent (minimum US\$ 2,500) of the initial capital; fee \$20.
7. Commercial bank – Obtain evidence that initial capital was paid.
8. Cadastre (Real Estate Office) – Request evidence of ownership for property.
9. Post Office – Pay administration fee for Cadastre.
10. Cadastre – Obtain evidence of ownership for property.
11. Ministry of Interior – Request criminal record of owners.
12. Post Office – Pay fee for criminal record (30 Dinars; US\$ 0.50).
13. Ministry of Interior – Obtain criminal record of owners.
14. Office for Clearing and Settlements – Pay court registration fees (930 Dinars (US\$ 16.14) for LLC, 1,130 Dinars (US\$ 19.62) for JSC, plus 2,500 Dinars (US\$ 43.40) for publication in the Official Gazette).
15. Commercial Court – Submit documentation (steps 1-14).
16. Commercial Court – Pick up business registration certificate.
17. Stationary shop – Make company stamp and seal (1,200 to 3,000 Dinars; US\$20.83–52.09).

THE REFORM PROCESS

The objective of business registration in Montenegro was to create the conditions that would stimulate the establishment of new enterprises. In particular, the establishment of more enterprises was needed to create new jobs and to reduce the size of the informal sector (estimated by the World Bank at 30 percent of GDP). This would, in turn, increase total taxation revenue and improve the image of Montenegro as a destination for foreign investment.

The reforms aimed to set up a procedure whereby a new enterprise in Montenegro could be established within 15 days with founding capital much less than the current US\$ 5,000 of E1,

3 A detailed description of the former procedure can be found in the World Bank's "Doing Business: Country Profile Serbia and Montenegro," (2002).

and establishment costs (fees) of under US\$ 50. However, the reform measures extended beyond company registration with the Commercial Court to the additional registration and certification requirements with the Statistical Agency and the Municipality, which were also streamlined.

The following measures were introduced to simplify company registration at the Commercial Court:

- Provide the public with complete information on required steps, costs, and documentation.
- Provide applicants with professional assistance at the Commercial Court.
- Make forms available at the Commercial Court.
- Place Commercial Court procedures online.
- Introduce a single registration fee.
- Ensure that the various registration procedures could be done in parallel, not in sequence. While registering with the Commercial Courts, the applicant should be able to start registration with the Municipality and the Statistical Agency.
- Introduce automatic approval after seven days to the municipality procedure.
- Reduce initial capital for limited liability companies from US\$ 5,000 to US\$ 1.
- Adjust the minimum capital for joint stock companies up from US\$ 15,000 to the EU requirements (US\$ 25,000).
- Eliminate the requirement for owners to submit a criminal record.

There was a broad consensus in the government to simplify the registration procedures for companies, and the project was part of the economic development plan for Montenegro. Laws and regulations were drafted without delay with the help of bilateral donors, a Montenegrin think tank,⁴ and international consultants.

The Government of Montenegro adopted the Law on Business Organizations in 2002.⁵ The law included many changes to the company registration procedure. Based on the law and a proposal of the Central Registry of the Commercial Court, the Ministry of Justice issued implementation instructions and forms for registration at the Central Registry.

Registration was reduced to the following steps:

1. Commercial Court—Obtain registration forms.
2. Post Office—Pay initial capital and court registration fees.
3. Commercial Bank—Obtain evidence that initial capital was paid in.

⁴ Center for Entrepreneurship and Economic Development (CEED) and Institute for Strategic Studies and Prognosis (ISSP), Podgorica.

⁵ Law on Business Organizations, Official Gazette of Montenegro, No. 25/2002.

4. Commercial Court—Submit application.
5. Commercial Court—Pick up registration certificate.

The minimum initial capital for limited liability companies was reduced from US\$ 5,000 to \$1 and for joint stock companies augmented to US\$ 25,000 from US\$ 15,000.

An official website for the Commercial Courts was created (www.crps.cg.yu), providing basic information on procedures and legislation. The government plans to establish the possibility of online company registration in the near future once the necessary laws on electronic signatures and electronic stamps have come into force.

IMPACT OF REFORM

The reform of company registration in Montenegro is seen as a success by the private and the public sector. In a survey by the OECD in the framework of the Investment Compact⁸ among SMEs, comments of entrepreneurs on new procedures for company registration were unanimously positive and the new procedures were rated even more positively (i.e., close to “very good”) by experts. There was common agreement that things have become less complicated, less time-consuming, and less costly.

Partly as a result of the simplified procedures, the number of registered firms in Montenegro has increased dramatically. Between 2002 and 2003 the number of registered companies tripled (see sidebar). In particular, the reduction of the high founding capital removed a major impediment to company registration.

Number of registered companies in Montenegro (at year end)⁶

1999 – 6,001
 2000 – 6,248
 2001 – 6,730
 2002 (June 30)⁷ – 8,639
 2003 – 21,724

A company can now be established in Montenegro in less than 15 days; registration at the courts takes no more than 4 business days. In fact, there is automatic registration in place and the registration is considered valid if the Commercial Court does not reject the application within 4 business days.

Furthermore, since detailed information about procedures is now provided to applicants, outside help (and the extra costs involved) is no longer necessary for straightforward company registrations. There is no study on the overall cost reductions from this reduced need for intermediation, but it is obvious to court officials that fewer applicants seek the assistance of agents, lawyers, or other advisers.

⁶ Number of companies for 1999, 2000, 2001 from Business statistics 2000, 2001 and 2002, Center for Entrepreneurship and Economic Development and Center for Applied Research and Analysis; Number of companies for 2002 (30th June) and 2003 from Commercial Courts Registry, Podgorica.

⁷ Deadline for re-registering existing enterprises was 13th September 2002, according to new Law

⁸ Montenegro – Enterprise Policy Performance Assessment, OECD, September 2003.

El Salvador: Overcoming Institutional Rigidities in Business Registration

In the mid-1990s official estimates of the time required to formally establish a business in El Salvador were 14 months for domestic companies, and 23 months for foreign companies. By 2003 this had been reduced to 119 days for all businesses. By this measure the reform process has been successful, but it still took about eight years. The political and institutional rigidities that caused this protracted process of reform, as well as the characteristics of the final system, are instructive.

The motivation for reform was the need to be competitive in international production; in other words, improving the investment climate for foreign companies was key. A desire to increase formalization among SMEs was not a primary motivation. Ultimately, however, the reform process worked to the benefit of all companies.

SITUATION BEFORE REFORM

By the end of El Salvador's civil war in 1992 there was a growing awareness within the government of the need for fundamental changes in the economic regime to restore and sustain the country's economic growth. The state-centered model of economic development was obsolete, and the government recognized the need to focus on strategies to make the country attractive to foreign investors who would use El Salvador as a production platform for foreign markets.

This new focus on foreign companies suffered an early setback in 1992 when it was alleged that labor practices in an EPZ garment facility producing for Cathy-Lee Gifford were abusive. The resulting U.S. Act 599 of 1993 put serious obstacles in the way of attracting investment from the United States. This setback forced the government of El Salvador to look even more closely at factors that might help it become more competitive in world markets. The government, in particular, looked beyond EPZs for economic development. El Salvador's EPZs were successful vehicles for generating local employment and foreign exchange, but they were unconnected to the broader economy and operated under rules that did not apply to the country as a whole.

In the early 1990s, the business establishment process in El Salvador was, even by the none-too-high standards of the region, notorious for its inefficiencies, duplicative procedures, lack of transparency, passive-aggressiveness, and petty corruption. After undertaking several diagnostic and benchmarking studies on the business establishment process, officials in the Ministry of Economy and Trade, and in the Office of the President, put the average time for establishing a domestic business at 14 months. For companies with foreign participation and for foreign branches and subsidiaries the figure was 23 months.

Business establishment was not necessarily the most urgent of El Salvador's competitiveness problems, but it did offer the advantage of being an issue around which a broad consensus could be built without excessive political cost. In the government's view, business establishment reform was a step in the right direction, with the advantage that it could be taken without directly challenging the perceived interests of a still overwhelmingly protectionist private sector. Yet, even after selecting its focus with some care, overcoming inertia and achieving a measure of real progress proved a much larger task than expected.

In the early 1990s, the Centro Nacional de Registro (CNR), the Commercial Registry, was at the center of the registration process for domestic companies, while the Superintendencia de Sociedades y Empresas Mercantiles in the Ministry of Economy and Foreign Trade administered additional licenses and approvals required of foreign companies. Among the main requirements for business establishment (and some of the more blatant shortcomings in execution) were the following:

- **Escritura Publica.** Preparation and notarization of a company's organizing document (the escritura publica). The escritura publica is submitted to the Commercial Registry, where the trade name of the company is reviewed for duplication, and the document itself is reviewed for conformity with requirements of the Commercial Code. This takes approximately four weeks. If the document does not conform it is rejected, but the Registry does not inform the applicant, who must exercise initiative to discover the status of an application. Mistakes and omissions are frequent, in part because there is no standardized format. Corrections typically require another 15-20 days.
- **Solvencia Municipal.** When the escritura publica is submitted to the Commercial Registry, it must be accompanied by a statement from each local tax office with jurisdiction over each founder of the enterprise that the founder does not owe any municipal taxes. Obtaining the solvencia municipal can take many months, and is particularly complicated when a founder has tax obligations in more than one municipality. Tax compliance is a problem in El Salvador, and a desirable reform goal, but the business registration process is not an appropriate means to this end.
- **Matricula Personal de Comerciante Social.** On completing the requirements of the escritura publica and solvencia municipal, the enterprise receives a "registration number." Then it must obtain from the Registry a matricula personal de comerciante social, the first of two licenses required by individual entrepreneurs and enterprises to conduct business. The applicant must then publish an announcement of the pending registration of the enterprise three times, either in the Diario Oficial or another periodical with national circulation. The former requires about one year, and the latter (more costly) about three and a half months. If the Registry receives no objection within 15 days of the publication of the last announcement, the matricula personal will be granted.
- **Matricula de Empresa y Establecimiento.** The documentation and procedures for obtaining this matricula are virtually the same, and take approximately the same time, as the

matricula personal, except that the enterprise must also submit its opening balance sheet to the Registry, along with proof that it has registered with the Salvadoran statistical office. For businesses with multiple offices or locations, a separate matricula de empresa is required for each office or location. The two matriculas do not seem to have a practical purpose.

- ***Patente de Comercio*** Any foreign individual entrepreneur or enterprise (except members of the former Central American Common Market) seeking to do business in El Salvador must obtain a special license in addition to the foregoing matriculas, called a patente de comercio e industria. To obtain the patente the foreign investor must submit to the Commercial Registry documents proving the nationality of the foreign investor, the audited opening or current balance sheet of the enterprise, and proof of the authority to engage in commercial acts in El Salvador. The patente ordinarily takes about eight months to obtain.
- ***Foreign Branches and Subsidiaries.*** Foreign branches and subsidiaries require an additional set of licenses and approvals from the Superintendencia de Sociedades y Empresas Mercantiles in the Ministry of Economy and Foreign Trade. The application consists of (1) the governing documents of the parent company (in Spanish) to show that the parent is properly organized in the home country, and that it is authorized to establish branches or subsidiaries and a permanent representative in El Salvador; and (2) proof, in the form of a financial feasibility study, that it has or will make available sufficient funds to conduct its designated business.
- ***Approval of Accounting Systems and “Legalization” of the General Ledger.*** All individual entrepreneurs and enterprises are required to maintain accounting systems in accordance with “generally accepted accounting systems” as defined and approved by the Superintendencia de Empresas. For this evaluation, all are required to submit a copy of their “manual of applied accounting,” a discussion of their methodology, a photocopy of the enterprise’s tax identification number, balance sheet (unaudited), organizing documents, and verification of the qualifications of the enterprise’s representatives. The Superintendencia is also responsible, in principle, for monitoring compliance with the law (capital replenishment, maintenance of adequate reserves, and so on), but rarely if ever does this because it does not have the resources to conduct formal audits. The process of approving an accounting system usually takes about 45 days.

Upon authorization of the accounting system and annually thereafter, the enterprise’s accounting books must be “legalized” by the Commercial Registry. This involves submitting to the Registry for review and approval the enterprise’s general ledger, the authorization of the accounting system from the Superintendencia de Empresas, a payment receipt for registration fees, and proof of application for the aforementioned matriculas. Legalization by the Commercial Registry normally takes another 30 days.

THE REFORM PROCESS

The Oficina Nacional de Inversiones (ONI) has had nominal responsibility for the business registration reform process since 1989, and for radically reforming it from the mid-1990s. However, it has had extremely limited staff and budget resources, and no power to compel cooperation across ministry and agency lines.

In particular, ONI faced a formidable opponent: the Centro Nacional de Registro (CNR). In 2003, the CNR still handled domestic company registration, although in a far more efficient and less maverick fashion. However, the National Competitiveness Program introduced in 1995, and the eventual passing of the new Investment Law in 1999, paved the way for ONI to become the sole registration institution for foreign companies operating in El Salvador.

Role of the Oficina Nacional de Inversiones

The ONI is a small office in the Ministry of Economy and Foreign Trade. Its general objective is to centralize, simplify, coordinate, and facilitate the procedures by which foreign and domestic investors establish enterprises in El Salvador. ONI's long struggle toward this objective can be divided into three stages.

- From its founding through 1995, ONI focused on diagnostic studies, seeking best practice advice, singling out procedures for modification or elimination, estimating the time and resource requirements for carrying them out, and recommending procedures for adoption. In 1994, ONI assumed responsibility for business establishment procedures in the Ministry of Economy and became a facilitator for other related ministries and offices.
- From 1996 to 1999 ONI attempted to obtain a legal personality and to establish itself and the procedural changes it sought on a formal basis through the design and promulgation of a new investment law. ONI was envisaged as a facilitator (rather than an authority), but that role required removing unnecessary and duplicative procedures from the registration process at the same time, and changed to post-approval notification where appropriate.
- Since 1999, ONI has been concerned with making its new mandate under the Investment Law operational. It has taken over the registration of all foreign businesses. Key issues included whether ONI should take direct responsibility for certain procedures or merely seek to facilitate them; and, if a facilitator, whether it should seek to gather representatives of other government agencies under one roof or pursue some form of electronic integration. Once such institutional issues were resolved, ONI redesigned and digitized application documents and questionnaires. Finally, ONI oversaw the introduction of hardware and software to establish a LAN among participating government offices and accompanying training to ensure that everyone knew how to use it.

Challenge of the Existing Centro Nacional de Registro

ONI's main challenge was to win the consent and cooperation of the existing commercial registry, the Centro Nacional de Registro (CNR), which was under the jurisdiction of the

Ministry of Justice (MoJ). On the basis of its diagnostic studies, ONI estimated that about three quarters of the number of procedures and at least an equivalent amount of the time for business establishment was related to CNR. But CNR was reluctant to cooperate.

- CNR argued that its files were not organized in a way that would allow them to separate foreign from national investors.
- CNR was also disinclined to cooperate because doing so would undermine its own plan to computerize the registry. Its strategy (which was to be supported by one or more development institutions) was to computerize the full range of existing requirements and procedures without reviewing their relevance or efficiency. This strategy was defeated a few years later by an intervention by the President.
- Finally, as an organ of the Ministry of Justice, CNR did not feel that simplicity and speed should necessarily be the guiding principles for business establishment because “public safety” might be compromised.

Because attempts at collaboration failed, ONI and the Ministry of Economy attempted to bring the registry function under the control of the Ministry of the Economy. The President, not wanting to offend the Ministry of Justice, did not approve this, but later gave control of CNR to an interministerial board including MoJ, the Ministry of Economy, the Central Bank and the Ministry of Finance. When this also did not work, the government directed ONI, in 1997, to become the sole commercial registry for foreign investment. Thus the country found itself with not one but two commercial registries.

In 1999, under a new administration, the ministerial board was abandoned and full control of company registration was given to the Ministry of Economy. Nevertheless, foreign and domestic company registration are still not integrated.

Support for ONI from the National Competitiveness Program

ONI was provided with vastly increased legitimacy and support after 1995 as a result of the new administration’s National Competitiveness Program, which gave ONI the mandate to pursue fundamental business registration/investment climate reforms. A centerpiece of the program was the new Investment Law, which actually gave ONI the task of overseeing and coordinating business establishment on a government-wide basis. ONI itself would not have the power to compel cooperation. Rather, it would monitor the performance of others against benchmarks, such as a reasonable agreed-upon time for completing an establishment procedure. When ONI encountered problems, it could now bring them to the attention of a high-level committee of ministers and leading businessmen. The committee, in turn, would be expected to use its powers of suasion to resolve those problems.

With its National Competitiveness mandate, ONI also took the lead in reforming Ministry of Economy procedures relating to foreign business establishment, implemented by the Superintendencia de Empresas. These procedures were among the most archaic of the whole

establishment process. Some, such as the requirement for foreign enterprises to prepare a financial feasibility plan, were eliminated outright. The most far-reaching change was to remove from the Superintendencia its powers to review and set accounting standards and conduct audits. Both these functions were turned over to the private sector, and a law was drafted to enable the transfer.

Finally, ONI's formal role as the sole business registration institution for foreign companies began when the Investment Law was passed in 1999.

IMPACT OF REFORM

ONI and the business establishment reforms it fostered are considered to be among the leading achievements of the National Competitiveness Program, but this was in no way pre-ordained. When the program began in 1996, ONI was one of the smallest of 26 projects funded under the World Bank's Competitiveness Loan. ONI's initial allocation was \$90,000. Over the next three years the size of the loan was cut by about 50 percent and about half of the original list of projects was eliminated entirely or substantially reduced in size. But in these difficult times, caused in large measure by paralysis between the Administration and Congress, ONI bucked the trend. By 1999, its World Bank-funded budget had been increased by a factor of ten, to \$900,000.

Based on the World Bank's "Doing Business" survey, ONI's efforts appear to have reduced the average time for establishing a business in El Salvador by about 80 percent, from about 18 months to 119 days. ONI's actual record of reform, according to some businesses and observers, may well be better than the levels indicated in all three of the survey's measures (time, number of procedures, cost).

Bolivia: Privatizing Business Registration by Accident

Bolivia's approach to business registration reform was a sort of accidental privatization not accompanied by any significant revisions to the procedures themselves. It stands in contrast to El Salvador's eventual institutional concentration of responsibility and Commercial Code reform.

In Bolivia, there was no real constituency for reform in the government, no vision of the role of efficient business procedures within a national development plan. Nevertheless, changes have taken place, and business registration is now the responsibility of the Chamber of Commerce, although with no noticeable effect on procedural efficiency. Business registration takes about 60-70 days. In many ways, Bolivia exemplifies how not to privatize business registration, though this is not a critique of privatization itself. Privatization has been successful elsewhere (e.g., UK).

SITUATION BEFORE REFORM

In late 1985, after an extended period of extreme turmoil, the new administration implemented comprehensive, market-friendly economic reforms. Bolivia's macroeconomic performance since then has been good (e.g., lower fiscal deficits, low inflation, increased tax receipts), but without the desirable impact on economic growth or poverty reduction. Annual growth rates for 1985–2000 averaged only 3 percent, or 0.5 percent per capita.

Over this period, Bolivia attempted several important institutional reforms with little success—in particular in the areas of privatization, civil service reform, and decentralization. This inability to bring about effective institutional change made business registration reform, with the many institutions and layers of government it involved, extremely difficult.

Business registration in Bolivia during this period exhibited many of the characteristics typical of inefficient systems: numerous duplicative steps; unclear and time-consuming procedures; abundant opportunities for “rent-seeking” and corruption; little coordination between relevant agencies; and substantial discretion in many procedures. The Registry itself was understaffed, under-funded, and under-automated. The Director of the Commercial Registry had the authority or mandate to judge the adequacy, intent, and character of a company seeking registration, but not the resources to do so effectively. The Registry was unable to meet its obligation to provide continuing statistical data on business activity and capital formation, for example, and failed to develop regulations covering the form and content of the required annual reports.

Numerous studies with a variety of recommendations for reform have corroborated these inefficiencies. One comprehensive study commissioned in 1992 by the Ministerio de Estado sin Cartera identified about 18 registries (including some sector-specific registries) with which businesses had to deal in order to achieve formal, legal status. This large, costly, three-volume study produced by Andersen Consulting and Price Waterhouse included an exhaustive diagnostic, a draft law and implementing regulations, and a state-of-the-art hardware and software system designed by IBM. But six years later few officials even knew of the report's existence, a symptom of Bolivia's institutional memory problem resulting from wholesale turnover of officials with each new administration.

THE PROCESS OF REFORM

A key problem in Bolivia was the absence of a real champion to push reforms forward, and no vision of a streamlined investment climate by which to justify them. The three main motivations for improving business registration in developing countries were either absent or frustrated by institutional problems.

This lack of vision, or incentive to reform, was due partly to the nature of foreign investment in Bolivia. The central government lacked a strategy to attract foreign investment as an

incentive to business registration reform. This was because FDI in Bolivia had long been concentrated in the mining and energy (and later, infrastructure) sectors, and such investors generally do not regard establishment time and cost questions as make or break issues in investment location decisions. Bolivia already had what investors wanted, so there was no external pressure to change.

The desire to increase formalization of the economy should have been a key incentive for the government to make business registration and other licensing procedures more efficient. Bolivia's informal sector is thought to account for 60-70 percent of the overall economy, and for as much as 90 percent in the manufacturing sector. However, formalization of businesses did not command much attention as a rationale for business registration reform. Paradoxically, one contributing factor may have been the flood of advice from donor organizations on "big picture" issues during this period. This commanded much of the time and attention of the most capable government officials, leaving little room for such mundane issues as business establishment.

Responsibility for company registration was decentralized to the departmental level in January 1996, but the system worked so poorly that this authority was rescinded in September 1997. Subsequently, the Executive Decree that calls for the creation of a new commercial registry (changing the name from RECSA to SENAREC) reestablished the principle of decentralization and, among other provisions, provided for a division of responsibilities between the national and departmental levels. The Decree also invited collaboration with the private sector in the business registration process, although it did not specifically call for private sector administration.

By the late 1990s, confusion and inattention to business registration within the government, along with the wording of the Decree, opened the door for the National Chamber of Commerce of Bolivia to realize its longstanding ambition to take over operation of the country's commercial registry. The Chamber of Commerce argued that it was efficient, pro-business, already had a network of offices in the prefectures (and thus could decentralize the business registration function more successfully than had been the case through the government's earlier efforts), and would be immune from the petty corruption that infused the existing system. Furthermore, it argued, this authority would automatically consolidate business registration functions because it would combine them with the obligatory registration process that businesses already had also to go through with the Chamber. (Companies that register with the Commercial Registry are required by law to then register with the Chamber of Commerce within 30 days, and to pay various registration and annual fees.)

To buttress its case, the Chamber commissioned a feasibility study by the Cámara de Comercio de Bogotá (Colombia). Since the early 1990s the Cámara de Bogotá had been managing Colombia's commercial registry with, according to the Bolivian Chamber, extraordinary results—completing inscriptions in not more than 24 hours and handling

requests for information in “par de minutos.” (Chamber of Commerce of Santa Cruz, press release, November 1998).

The administrative transfer of the Registry to the National Chambers of Commerce was completed in 2000. The “warts and all” transfer included the prevailing system and all its inefficiencies. Deep reforms, such as amending the Commercial Code to change the Registry’s methods of operation, were never undertaken.

IMPACT OF REFORM

Available evidence suggests that thus far the Chamber has not managed the business establishment process (as measured by time, number of procedures, and cost) any better than the public sector. According to the World Bank’s “Doing Business” survey, the business establishment process in 2003 required 18 procedures and 67 days, not materially different from the figures provided in a study dated five years earlier. It therefore seems that the transfer of authority to the Chamber of Commerce—the privatization of the process—has simply transferred some rent-seeking opportunities from the public to the private sector. (Nevertheless, the time required to establish a business, though not reduced, is still less than in El Salvador.)

The problems that have prevented improvement in business registration performance in Bolivia include

- A lack of motivation to do so within the government structure;
- No vision for economic development, for investment climate improvement, or for business registration reform;
- Institutional rigidities and lack of coordination; and
- A failure to reform the Commercial Code (i.e., the legislated procedures required for business establishment) before changing institutional arrangements.

Costa Rica: Reform in Progress⁹

The final case study of Costa Rica is slightly different in that we do not yet have an endpoint by which to judge success or failure. However, Costa Rica’s case is interesting and worthwhile for several reasons.

⁹ Tor Jansson and Geoffrey Chambers, “The Case for Business Registration Reform in Latin America,” Inter-American Development Bank, Sustainable Development Department: Best Practices Series; MSM-110, July 2001.

- Streamlining business registration is taking place when attention is focused on business registration reform and international organizations and the government are taking reform seriously.
- The Government of Costa Rica has chosen to reorganize business registration (for the first stage at least) rather than undertake fundamental reforms that challenge the current distribution of authority and responsibility.
- The emphasis on reorganization notwithstanding, several of the tools and processes highlighted in the preceding case studies are being implemented in “non-threatening” ways.
- According to the World Bank’s “Doing Business” database, business registration was a median performer in 2003, requiring 11 steps, 80 days, and \$879 (21.4 percent of GNI). Meanwhile, another analysis from 1998 claimed business registration then took up to 17 months, and involved 71 processes and 10 public institutions (it is unlikely that the same methodology or criteria were used in the two analyses).¹⁰
- In contrast to this, at best, lackluster business registration performance, Costa Rica has become known for its exemplary promotion of Intel’s substantial high-tech investment against intense and high-quality international competition. To secure this investment, Costa Rica had a strong vision and strategy for national economic development; and it engineered a degree of collaboration within the government, and between the government and private sector and other civil society institutions, that other countries now seek to emulate. Still, the investment climate for domestic SMEs, which are the focus of the “Doing Business” assessment, looks very different. Can Costa Rica muster for its SME sector the strategy, vision, and institutional collaboration that improved foreign investment?

SITUATION BEFORE REFORM

In Costa Rica, business registration can take several months and many hundreds of dollars, depending on such factors as the sector, level of public health hazard associated with the business, and company form (sole proprietorship, partnership or corporation). Entrepreneurs in Costa Rica typically must approach at least six government authorities to fully register their business:

1. Commercial Registry
2. Ministry of Health
3. Municipality
4. National Insurance Institute
5. Social Security Institute
6. Tax Authority

¹⁰ Dificil invertir en Costa Rica, Instituto para la Libertad y el Análisis de Políticas. Derechos reservados. INLAP (AIPE, 29/1/98).

Businesses must approach these authorities in sequence: registration at the Commercial Registry must be approached first, National Insurance Institute must occur before registration with the Social Security Institute, and the municipality must be approached last.

Depending on the nature of the business, each step may have additional requirements (e.g., a restaurant must obtain clearance from the fire department before registering with the Ministry of Health). Before even approaching any of the six authorities, the entrepreneur must first deposit a nominal amount of capital with a bank, have the company's articles of incorporation notarized by an attorney, pay the stamp duties associated with the registration at the various institutions, and request announcement of the company's creation in the official government journal after registering with the Commercial Registry.

THE REFORM PROCESS

The Inter-American Development Bank and the government of Costa Rica recently agreed to co-finance reorganization of Costa Rica's business registration process. The reform will reduce process costs by an estimated 25 percent and registration time by an estimated 75 percent. About 93,000 entrepreneurs will benefit over a 10-year period with an estimated aggregate savings of approximately US\$130 million (in time and fees) as the result of a faster and cheaper streamlined system. The project will benefit the entrepreneurs and the government, which will be able to analyze and monitor patterns of registration and evasion of certain procedural requirements, and to collect more taxation revenue.

The project, implemented in close collaboration with a technical secretariat established by the Costa Rican government as part of an effort to eliminate and modify excessive and inappropriate regulations, will provide a direct path to formally proposing legal and regulatory changes to the government. Such strong government commitment to reorganization clearly increases chances of success.

One-stop-Shop for Business Registration

The one-stop-shop for business registration in Costa Rica has three dimensions: technical, legal and organizational. The technical dimension involves installing and programming a database through which all registration information will be channeled. The interface of the database will look like a web page, and the data will be available for downloading after users have provided a password. The information in the database will be accessible to the six government entities involved in business registration; they will not have to acquire any hardware or software because the database will be running on the server. The technical dimension includes the design of a unified registration form that will bring together all the information required of businesses.

The most important project activities for the functioning of the one-stop-shop system are regulatory in nature and will ensure that government agencies can legally recognize the

electronic information transmitted through the database system, and that applicants do not have to appear in person at these agencies. The project will seek to update local laws to ensure the legal validity of electronically transmitted information, and to modify requirements relating to the notarization of a company's articles of incorporation and their publication in the official government journal.

The organizational dimension of the project addresses how the one-stop-shop service will be provided to the public and how the system will be managed. This may be the most innovative aspect of the project because it envisions the creation of a nonprofit association with members who manage the database jointly and offer the service to the public individually. The founding members of the association will likely be the chambers of commerce and industry with a direct mandate to serve entrepreneurs. Membership will be open to any organization that wishes to offer the registration service through its network. The association will meet only periodically to make general decisions about database maintenance and upgrading and will not require any facilities or staff of its own. A standard fee charged at the time of each registration will cover the costs of database maintenance and upgrading. This could be entirely sustainable with a standard charge of US\$12 per registration in year one, decreasing to US\$7 per registration in year ten. The association's members will be free to add any charge they like to cover the costs of providing the service and to customize and differentiate services. Government entities can also offer the service to entrepreneurs directly.

The proposed arrangement for managing the one-stop-shop system is shaped by several important considerations:

- The system is able to provide wide geographic coverage at very reasonable cost through the local offices of the association members;
- The use of a non-profit administrator prevents potential misuse of a monopolistic situation (because there is only one one-stop shop).
- The freedom of individual offices/affiliates to design and charge for their services encourages competition and innovation in the provision of services.
- Fee financing means that the system is self-sustainable and not dependent on government budget negotiations.
- There is a ready-made channel through which to present complaints and suggestions for improvement of the system since the association's members offer the services through their own local offices/affiliates.

The government, which will retain its supervisory role through an interministerial commission, will ensure that the association strictly follows its statutes and operating procedures. It will not make day-to-day decisions regarding the one-stop-shop system.

ANTICIPATED IMPACT OF REFORM

The jury is still out on Costa Rica's reorganization process. However, multiple "best practices" for business registration were incorporated into design of the reorganization. Before approving the project, the IDB and the government identified unnecessary, obsolete, and inappropriate requirements and relevant laws and regulations (the reform of which was not the project's focus).

The new system of business registration in Costa Rica is expected to look very different from the current system. The new system will merge the various informational requirements into one form and eliminate redundant forms, regulations, steps, and processes. A unified window of contact for entrepreneurs will be established through one-stop-shop at various locations throughout the country, rather than various layers of bureaucracy at the local, state, and national levels. Technology, central to the new procedures, will link six agencies to a common database/server and a simple interface. Coordination between national and local authorities will be greatly facilitated through a common process and will cut processing times dramatically by enabling a parallel consideration of different components of the registration request. Applicants can express their concerns and suggestions via the local one-stop shop through a feedback loop. The new system will lower fees, particularly if notarization requirements are modified or eliminated, and will encourage innovation and customization of registration services.

Because the primary candidates for providing this service (such as the chambers of commerce and industry) already work closely with entrepreneurs, a major training component will not be necessary. Some initial technical training and orientation will be provided to organizations that wish to offer the one-stop-shop registration service.

These changes are expected to improve the registration process significantly, but some areas may merit additional efforts:

- A single business identification number will be established within the one-stop-shop system, but it will not automatically extend to the government entities. Full introduction of a single registration number system is a candidate for follow-on simplification/reform.
- The one-stop-shop system will make all registration information available to the public through a web site, but publicizing the system among entrepreneurs will be limited to the project implementation period. If organizations offering the one-stop-shop registration service advertise on their own then this will not be an issue.
- The system will provide for parallel (rather than sequential) processing by the six government agencies, but it will not involve streamlining the agencies' internal operating procedures.

Costa Rica has pursued reorganization of the business registration system rather than fundamental reform; the latter would have been a far more ambitious agenda and would have dramatically increased the cost and complexity of the project. In addition, the government is

trying to avoid resistance or criticism from government institutions that would arise from attacks on their jurisdiction or attempts at reform.

The effort to streamline the business registration system is supported by the government's strong vision and determination, but it is not yet broaching fundamental reform of the system so it may be difficult to achieve overall registration times of less than 2–4 weeks. Nevertheless, it still expects to reduce processing times by about 75 percent and achieve a far more client-driven system.

4. Analysis and Conclusions

In this paper we have explored why some countries have struggled to improve the business registration process, the strategies and tools they have used to do so, and how successful they have been. Business registration and licensing has received so much attention because it is the first step that all companies must take in beginning operations in the formal sector. It also has the potential to be a relatively effortless process, although most economies have had to struggle with its complexities at some point in their evolution. The case studies presented here demonstrate that there is no one-size-fits-all solution. It is crucial to understand the full spectrum of relevant factors and to address them within the context of the particular country pursuing business registration reform.

Table 4-1 summarizes the current business registration processing times and costs for our case study countries. As discussed in the case studies, major improvements over time may still add up to mediocre performance; countries with relatively good original performance may not show much change.

Why Should Countries Want to Reform and Streamline Business Registration?

There are three general rationales for wanting a more efficient business registration system in the context of stimulating a country's economic performance.

1. *Inefficient, duplicative, time-consuming procedures distract the private sector from contributing to the economy.* While this all-embracing rationale is obvious, governments and private sectors often do not see the "big picture." Small businesses see excessive regulation as a necessary evil or occupational hazard, while larger companies find ways around it. They are either not motivated to do anything about it, or do not have the resources to do so. Meanwhile, each involved government department often sees itself as defending some public good, and as placing only a small burden on businesses through its procedures. Those departments do not see the aggregate burden, or realize that many procedures are duplicative.

Table 4-1*Cost and Duration of Business Registration for Case Study Countries*

Country / Year	No. of procedures	Duration (calendar days)	Cost (% GNI per capita)
Bolivia 2003	18	67	166.6
Bolivia 2004	15	59	175.5
Costa Rica 2003	11	80	21.4
Costa Rica 2004	11	77	25.7
El Salvador 2003	12	115	129.8
El Salvador 2004	12	115	125.1
Zambia 2003	6	40	24.1
Zambia 2004	6	35	28.1
Serbia and Montenegro 2003	10	44	13.3
Montenegro 2004		15	

SOURCE: World Bank. *Doing Business 2004*. Washington D.C. Montenegro estimates from case study.

Furthermore, when countries undertake decentralization reforms that will ultimately make the economy more dynamic, new layers of authority and regulation are introduced. This can render business registration and related procedures far more complicated. Some parallel simplification is needed as a form of counterbalance, and to give ambitious decentralization reforms, for example, a better chance of success.

2. *Efficient business registration and licensing is important for attracting foreign investment.* Companies already in a country (or investing to access some unique resource) have no choice but to follow a country's administrative procedures. If companies are drawn to a location because of some unique attribute (e.g, Bolivia's mining deposits or Brazil's large internal market) they may have a high level of tolerance for government inefficiencies. But investors who enjoy a choice of location will compare competing countries on many counts, including administrative transparency and efficiency.
3. *Efficient business registration can help bring more companies into the formal sector.* Burdensome business registration and licensing procedures may be one cause of the high levels of business informality in many countries (e.g., 60-70 percent in Bolivia and 30 percent in Montenegro). Some parts of an informal economy are simply illegal in nature, and will not be affected by procedural improvements. However, for the majority of informal sector activities the salient factor may simply be the burden and complexity of complying with government requirements. Governments should want to have more businesses in the formal sector because it tends to make the businesses more sophisticated and better contributors to the national economy, but also because of the additional tax revenue. For informal businesses, of course, potential tax revenues for the government,

and other official or unofficial levies that formality might attract, also constitute “costs of exposure,” a fear which governments need to assuage in various ways.

Multilateral and bilateral donor institutions are also partly responsible for all the attention focused on business registration. Business registration has been targeted to some extent because it is relatively easy to measure. The World Bank’s “Doing Business” program, for example, has expended enormous effort to create a worldwide database on the time and costs of business registration.

The various process-oriented diagnostic projects carried out by donors such as the World Bank (FIAS), the IDB, and USAID have also naturally led to a focus on business registration as one of the first and most important procedures that businesses must negotiate. Registration’s measurability and importance to private sector development has placed registration reform in loan programs, either as an objective or as condition.

Why is Business Registration Reform So Difficult?

Good reasons for making business registration reform a priority in any country abound; and developing countries, in particular, often receive copious encouragement from donor organizations. Yet, reform is difficult for a variety of reasons:

- *Smaller domestic companies in developing countries fear the costs of exposure that come with registration.* They distrust government oversight of business.
- *Similarly, government departments often distrust the private sector, seeing themselves as defenders of the public good.* Moreover, each government department or agency typically wants to maintain a measure of control over business, not realizing (or perhaps not caring) that the aggregate effect on business dynamism is substantial. A significant factor is the need to supplement extremely meager government salaries: in Zambia, for example, the private sector salary for a mid-level legal-job can be 20 times higher than for a comparable job in a government agency.
- *Multiple government institutions are typically involved in business registration and licensing.* For various reasons they do not see the big picture or aggregate benefits of more efficient business registration. Unless there is some shared vision for economic development, and/or a champion at the highest level to push reforms through and enforce their implementation, the reform process may well be frustrated.
- *Government distrust of the private sector, and the desire of multiple levels and agencies of government to maintain some control over business, often results in complicated legislation.* Sometimes most rules and regulations are contained in the Companies Law or Commercial Code, but often they are dispersed across multiple pieces of sometimes inconsistent legislation.

- *A streamlined process would make kickbacks and higher fees less “justifiable.”* For a simple process, a local authority could not justify large fees, and individuals would find it more difficult to extract kickbacks. The potential removal of such incentives also cools ardor for reform of business registration.

What Constitutes Best Practice in Business Registration?

A system of business registration that exemplifies best practices cannot be achieved overnight or even in the medium term. Such a system, for example, must be supported by effective rule of law in business-related matters. This often does not exist in developing countries and until it does compromise in business registration and other interactions with the state will persist. Nevertheless, the principles embodied in the best practice model described here should be kept in mind when considering registration reform.

A best practice model for the registration of corporations and commercial enterprises is based on the simple inscription of clearly defined kinds of information that the registrant, by the act of registration, declares to be true. The registry’s role is to confirm that the registrant has indeed provided the range of information required, and that such information has been properly formatted and duly notarized. The registry, however, should not authenticate or certify or otherwise seek proof that the information is true in substance, or that the registrant is complying with any or all other laws. If the registration or legal standing of a registrant is challenged by third parties, registrants have recourse to the law to defend themselves. If registrants fail to defend themselves, they should be subject to legal sanctions.

The two most important functions of registration under this best practice model are (1) to enter important information about a company into the public record, and (2) to provide the registrant with a legal identity. For corporations and commercial enterprises, advantages of the latter would normally include the right to establish an entity with limited liability, and to benefit from the protection of limited liability status in law suits or when entering into contracts.

The best practice model gives registrants the right to a legal identity without imposing extensive preconditions or qualifications, such as providing exhaustive proof *ex ante* that all information provided is truthful, or that all documents registered comply fully with the law.

The best practice approach is based on the assumption that bringing corporations and commercial enterprises into the legal domain in a timely manner, through an inscription of key documents is in itself an economic. It is therefore in the government’s interest to make the process of obtaining legality as simple, transparent, and condition-free as possible. A clear advantage of the best practice model is its potential for efficiency. For countries that follow this model, registration can be completed in a matter of hours or, if the registry does not have automated data retrieval systems, a few days at most.

How Should Countries Reform Business Registration; What are the Key Tools and Approaches?

Most tools and approaches that developing and developed countries use to make business registration more efficient involve serious reforms that require changes in laws or regulations, or the establishment, disestablishment, or combining of institutions. Impressive gains in efficiency can sometimes be had through relatively simple changes in organization or methods without reforms *per se*. Key reforms include the following:

- ***Reform of Commercial Code/streamlining of regulations relating to business registration, and the possible use of deadlines.*** Redundant forms, regulations, steps, and processes should be eliminated from the business registration process. This was the central thrust of business registration reform in Montenegro, which was accompanied by a broad consensus on economic development within the government and more use of information technology. Deadlines for procedures can also be used to speed business registration, an approach used in both Montenegro and Mexico. In Mexico, laws providing for automatic approval should an agency not respond in a specified period of time allow businesses to start operations in 7-21 working days. Simplifying business registration also helps reduce opportunities for illicit payments, and many other tools or approaches may be ineffective without laying this foundation.
- ***Reform of institutions/mechanisms related to business registration.*** This could be consolidating institutions or improving linkages between them, such as through a single identification number. Whether decentralization is underway or not, close coordination between subnational and national governments is important for efficient registration, and at the very least can make the business registration process more accessible to businesses located away from commercial and political centers. Given also the many institutions involved in business registration, a clear champion and reporting lines to a higher authority are usually important.
- ***Need for a shared economic development vision, and a champion for reform at the highest levels of government.*** El Salvador's National Competitiveness Program was crucial in setting foreign investment as a national economic objective, in implementing a new foreign investment law, and ultimately in transferring full authority for foreign business registration to a single agency.
- ***Integrating business registration functions through a single identification number helps improve the rate of formality.*** If all functions are linked, there may be at least one function that a company needs or would like to do to access certain benefits. For example, if lending organizations always check tax registration or business registration as part of due diligence businesses would be obliged or motivated to do the whole registration process because one aspect is automatically linked to others. Access to training incentives instituted by government or business information centers could also encourage registration. Of course, a single identification number also helps reduce duplicative procedures.

- *Privatization of the business registration function can help improve efficiency and reduce the burden on government.* The UK's Companies House is an example of effective privatization while Bolivia's privatization of business registration seems merely to have transplanted an inefficient system from the public to the (quasi-) private sector.
- Finally, *the use of information technology (IT) and unified points of contact for business can facilitate business registration, typically in parallel with procedural simplification, and such tools as a single identification number.* Again, streamlining of the process itself, along with other reforms, is necessary for computerization to be effective. Thus, Zambia's computerization has made the process more efficient for those companies that do register, but has not properly addressed the issue of getting more companies to actually do so. For countries that need "lower technology" solutions to business registration reform, an assembly line of agencies stationed in one location can dramatically reduce registration time. Such a system exists in Brazil. As with all one-stop-shop solutions, governments must ensure that the result is not a one-more-stop shop. In any case, an objective of unified points of contact and information technology is to make information about procedures, as well as the completion of those procedures, widely accessible.

These approaches to business registration reform, in some combination, have often led to significant improvements in a variety of situations. But much progress can sometimes also be achieved through a simple review or reorganization of procedures (e.g., placing them in a single location, checking that applications are complete and properly prepared with regard to existing procedures). Indeed, one reason that procedures take so long is that applications are often returned to the applicant, whether correctly or not, as incomplete. Collecting registration procedures and reviewing them may achieve efficiency gains without reforms. Such an approach was taken in Surco municipality in Peru. By moving the application review process from five locations to one and by reviewing applications for completeness, the time required for business registration was reduced from roughly 70 days to one day.

But even this "organizational" approach to business registration improvement depends on an authority having the power and vision to take the reorganization step. One must counter the incentives that individuals and institutions have to keep the process complex. Indeed, the example of Surco municipality suggests that many procedures and regulations were worthwhile, but organizational efficiency was hampered by incentives for kickbacks and facilitation arrangements. Furthermore, a simple reorganization or review is likely to highlight superfluous or overlapping regulations or requirements. It may also lay the logical groundwork for extremely valuable institutional reforms (e.g., one-stop shop) or procedural reforms (e.g., single identification number).

Clearly, the more integrated the approach to business registration reform, involving a combination of the approaches and tools, the more successful it is likely to be. Once a strategy is designed and implementation underway, the benefits need to be consolidated by

- *Training licensing authorities and providing them with adequate resources.* Training is a vital component of business registration reform; otherwise new technology may end up unused, and modified regulations may never be followed by mid- and lower level bureaucrats. One valuable approach is a business registration manual that serves as the officially sanctioned guide to what administrative officials should do and what businesses should expect. Multilateral and bilateral donors are typically keen to complement proactive business registration reform in partner countries with training and other resources.
- *Consistent review and innovation.* Mechanisms for customer feedback can strengthen the process and create demand for second-round reforms that make the process even more efficient. In Canada (Ontario), for example, new business regulations have “sunset” clauses to ensure open review within a specified timeframe.

Business establishment procedures have received a vast amount of attention in recent years, and the international development community has clearly set out to improve performance in this dimension of the investment climate. Nevertheless, too sharp a focus on business establishment reform also risks turning it into an “icon” of a far more complex reality—other investment climate shortcomings are not automatically resolved through a narrow focus on business establishment reform. Business establishment touches on so many different parts of government that a unifying vision of “national economic development” or “competitiveness” is often critical.

In conclusion, we suggest that the first steps in reforming business establishment procedures are a detailed review and understanding of existing procedures, and a vision for investment climate improvement championed at the highest levels of government. With those two preliminary steps taken, developing country governments and their partners can set about designing a country-specific strategy for business registration reform drawing on the tools and approaches investigated in this paper.

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